

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MONTMORENCY COUNTY ROAD COMM</b>	County <b>MONTMORENCY</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>2/15/05</b>	Date Accountant Report Submitted to State: <b>6/16/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1960).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943 as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1991 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>THOMAS R ZICK CPA, P C</b>			
Street Address <b>P O BOX 149</b>		City <b>LEWISTON</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49756</b>	Date <b>6/16/05</b>

MONTMORENCY COUNTY ROAD COMMISSION  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2004

MONTMORENCY COUNTY  
BOARD OF COUNTY ROAD COMMISSIONERS

Joseph LaFleche  
Commissioner

Merrill Walker  
Commissioner

Alonzo Weaver  
Commissioner

MONTMORENCY COUNTY ROAD COMMISSION  
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**Thomas R. Zick CPA, P.C.**  
CERTIFIED PUBLIC ACCOUNTANT

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## INDEPENDENT AUDITOR'S REPORT

February 15, 2005

Board of County Road Commissioners  
Montmorency County  
Atlanta, MI 49709

I have audited the accompanying basic financial statements of the Montmorency County Road Commission, a component unit of Montmorency County, Michigan, as of and for the year ended December 31, 2004 as listed in the Table of Contents. These basic financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Montmorency County Road Commission as of December 31, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying required supplemental information and other supplemental information listed in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the Montmorency County Road Commission. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for purposes of additional analysis and have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

As described in Note A, the Montmorency County Road Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and analysis - for State and Local governments*, as of January 1, 2004.

The management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Page 2  
Montmorency County Road Commission  
February 15, 2005

In accordance with Government Auditing Standards, I have also issued my report dated February 15, 2005, on my consideration of Montmorency County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA P.C.", written in a cursive style.

Thomas R. Zick CPA, P.C.  
Certified Public Accountant

## **MONTMORENCY COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Montmorency County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statement.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### **REPORTING THE COMMISSION AS A WHOLE**

#### **Government-Wide Statements**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the Road commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

**MONTMORENCY COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets were \$11,768,213 at December 31, 2004. The net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The investment in capital assets, net of related debt, was \$11,198,238 at December 31, 2004. The increase in net assets is primarily the result of reporting infrastructure of \$1,372,287. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by Governmental Accounting Standards Board (GASB) Statement No. 34.

Net assets as of year ended December 31, 2004 follow:

Current and Other Assets	\$ 857,708
Capital Assets	<u>12,120,498</u>
Total Assets	<u>\$12,978,206</u>
Long-Term Debt Outstanding	\$ 1,137,941
Other Liabilities	<u>72,052</u>
Total Liabilities	<u>1,209,993</u>
Net Assets	
Invested in Capital Assets	
Net of Related Debt	11,198,238
Restricted	<u>569,975</u>
Total Net Assets	<u>\$ 11,768,213</u>



**MONTMORENCY COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

Since this is the first year the Road commission has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to calendar year 2003 is not available.

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2004 follows:

Revenues	
License and Permits	\$ 39,414
Federal Grants	309,517
State Grants	2,542,944
Contributions From Local Units	155,602
Other Revenue	16,766
Interest and Royalties	9,707
Gain on Equipment Disposal	<u>4,005</u>
Total Program Revenue	<u>3,077,955</u>
Expenditures	
Public Works	2,510,942
Interest Expense	<u>36,672</u>
Total Expenditures	<u>2,547,614</u>
Increase (Decrease) in Net Assets	<u>530,371</u>
Ending Net Assets	<u><u>\$11,768,213</u></u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in Operating Fund for the year ended December 31, 2004 is as follows:

Revenues	
License and Permits	\$ 39,414
Federal Grants	309,517
State Grants	2,542,944
Contributions From Local Units	155,602
Interest and Royalties	9,707
Other Revenue	<u>20,771</u>
Total Program Revenue	<u>3,077,955</u>
Expenditures	
Public Works	3,254,890
Net Capital Outlay	(95,397)
Debt Service	<u>78,577</u>
Total Expenditures	<u>3,238,070</u>

**MONTMORENCY COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

Excess of Revenues Over (Under) Expenditures	<u>(160,115)</u>
Fund Balance - January 1, 2004	923,556
Restatement to Beginning Fund Balance	<u>24,595</u>
Restated fund Balance - January 1, 2004	948,151
Fund Balance - December 31, 2004	<u>\$ 788,036</u>

**BUDGETARY HIGHLIGHTS**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$543,203 lower than the original budget primarily due to the Road Commission not borrowing.

The final amended expenditure budget for 2004 was \$380,946 lower than the original budget primarily due to the Road Commission reducing the budget for capital outlay which did not occur. The actual expenditures incurred during 2004 were less than the final amended budget by \$2,140.

**Capital Assets**

As of December 31, 2004, the Road Commission had invested \$12,120,498 in net capital assets.

Capital Assets not being Depreciated	
Land and Improvements	\$ 17,476
Infrastructure Land Improvements	<u>4,710,729</u>
Subtotal	<u>4,728,205</u>

**Capital Assets Being Depreciated:**

Buildings	1,999,378
Equipment - Road	2,471,229
Equipment - Shop	41,468
Equipment - Office	38,290
Equipment - Engineering	7,235
Equipment - Yard & Storage	83,640
Infrastructure - Bridges	2,098,789
Infrastructure - Roads	<u>6,535,959</u>
Subtotal	<u>13,275,988</u>

Total Capital Assets	18,004,193
Total Accumulated Depreciation	<u>5,883,695</u>

Total Net Capital Assets	<u>\$12,120,498</u>
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Debt related to capital assets – Bonds	<u>\$ 900,000</u>
Installment loans	<u>\$ 22,260</u>

**MONTMORENCY COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$1,372,287. The infrastructure recorded, during 2004 will be depreciated in following years. The infrastructure is financed through Federal, State and local contributions. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by GASB 34.

This year's major capital asset additions included the following:

Various equipment	\$ 26,691
Pick-up	20,882
Various Resurfacing Projects and Related Costs-Infrastructure	1,372,287
2 Fruehauf trailers	29,500
Mack tractor	<u>38,000</u>
Total Additions	<u>\$ 1,487,360</u>

There were no installment purchase agreements entered into during 2004. All the equipment was acquired with Road Commission funds.

Debt

At the year end, the Road Commission had \$900,000 in bonds and \$22,260 in installment debt, a decrease of \$40,319 from 2003. The bonds are payable over a nine year period with a final payment due November 1, 2013. Other long-term debt is accrued vacation and sick pay leave.

In 2005, the Road Commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners, along with the Road Commission's fiscal and chief administrative officers, considered many factors when setting the calendar year 2005 budget. These factors included the economy, township contributions, interest rates and various others. We are projecting no increase in revenue over the year 2005, with an increase in expenses, primarily due to bond principal payments on the \$900,000 bonds.

This financial report is designed to provide the public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Montmorency County Road Commission's administrative offices at 11445 M-32, Atlanta, MI 49709.

MONTMORENCY COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

ASSETS

Cash demand and time deposits	\$ 277,936
Accounts receivable:	
Michigan Transportation Fund	362,631
Sundry Accounts	190
Inventories	
Road Materials	116,035
Equipment Parts and Materi:	74,633
Prepaid expenses	26,283
Capital Assets (Net of Accumulated Depreciation)	<u>12,120,498</u>

TOTAL ASSETS	<u><u>\$ 12,978,206</u></u>
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LIABILITIES

Current Liabilities

Account payable	24,929
Accrued liabilities	47,123
Bonds payable	85,000

Noncurrent liabilities:

Bonds payable	815,000
Vested employee benefits payable	215,681
Installment loans payable	<u>22,260</u>

TOTAL LIABILITIES	<u>1,209,993</u>
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NET ASSETS

Invested in capital assets, net of related debt	11,198,238
Restricted for County Roads	<u>569,975</u>

TOTAL NET ASSETS	<u><u>\$ 11,768,213</u></u>
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See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

Program Expenses	
Primary Road Maintenance	\$ 490,665
Local Road Maintenance	881,903
Net Equipment Expense	264,816
Net Administrative Expense	245,219
Infrastructure Depreciation	680,310
Compensated Absences	(51,971)
Interest Expense	<u>36,672</u>
Total Program Expenses	<u>2,547,614</u>
Program Revenue	
License and Permits	39,414
Federal Grants	309,517
State Grants	2,542,944
Contributions From Local Units/Other	155,602
Investment Earnings	9,707
Reimbursements/Miscellaneous	<u>16,766</u>
Total Program Revenue	<u>3,073,950</u>
Net Program Revenue	<u>526,336</u>
General Revenue	
Gain on Equipment Disposal	<u>4,005</u>
Total General Revenue	<u>4,005</u>
Change in Net Assets	530,341
Net Assets	
Beginning of Year	<u>11,237,872</u>
End of Year	<u><u>\$ 11,768,213</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2004

	<u>General Operating Fund</u>
ASSETS	
Cash Demand and Time Deposits	\$ 277,936
Accounts Receivable:	
Due from State	362,631
Sundry	190
Inventories	
Road Materials	116,035
Equipment Parts and Materials	74,633
Prepaid Expenses	<u>26,283</u>
TOTAL ASSETS	<u><u>\$ 857,708</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts Payable	\$ 24,929
Accrued Liabilities	<u>44,743</u>
TOTAL LIABILITIES	69,672
FUND EQUITY	
Fund Balance	
Undesignated	<u>788,036</u>
TOTAL FUND EQUITY	<u>788,036</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 857,708</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION  
Reconciliation of Fund Balances on the Balance Sheet  
to the Statement of Net Assets  
DECEMBER 31, 2004

Total Governmental Fund Balance	\$788,036
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Capital assets at cost	18,004,193
Accumulated depreciation	(5,883,695)

Installment debt - not due and payable in current year and is not reported in the funds	(22,260)
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Accrued interest on bonds payable is not included as a liability in the funds	(2,380)
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Long Term Debt - bonds payable not due and payable in current period and is not reported in the funds	(900,000)
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Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds	(215,681)
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Net Assets of Governmental Activities	<u><u>\$11,768,213</u></u>
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See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004

	General Operating Fund
REVENUES	
Licenses and Permits	\$ 39,414
Federal Grants	309,517
State Grants	2,542,944
Contributions From Local Units	155,602
Interest and Rents	3,456
Other Revenue	<u>27,022</u>
TOTAL PROGRAM REVENUE	<u>3,077,955</u>
EXPENDITURES	
Public Works	3,254,890
Net Capital Outlay	(95,397)
Debt Service	<u>78,577</u>
TOTAL EXPENDITURES	<u>3,238,070</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(160,115)</u>
OTHER FINANCING SOURCES (USES)	
Bond Proceeds	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(160,115)
FUND BALANCE - BEGINNING OF YEAR	923,556
PRIOR PERIOD ADJUSTMENT	<u>24,595</u>
FUND BALANCES, BEGINNING OF YEAR RESTATED	<u>948,151</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 788,036</u></u>

See Notes to Financial Statements



MONTMORENCY COUNTY ROAD COMMISSION  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balance of Governmental Funds  
to the Statement of Activities  
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in Fund Balances - Total Governmental Funds	(\$160,115)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - Capital Outlay	1,487,360
Deduct - Depreciation Expense	(890,780)
Repayment of installment loan principal is an expenditure in the governmental fund but reduces long-term liabilities in the Statement of Net Assets	40,319
Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statements	
Add - decrease in vested employee benefits	51,971
Accrued interest on bonded debt does not require the current use of financial resources and is not reported as an expenditure in the fund statement	
Add - decrease in Accrued interest payable	<u>1,586</u>
Change in Net Assets	<u><u>\$530,341</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Montmorency County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Montmorency County Road Commission.

REPORTING ENTITY

The Montmorency County Road Commission, which is established pursuant to the County road Law (MCL 224.1), is governed by a 3 member board of county road commissioners elected by the voters of the county. The Road Commission may not issue debt without the County's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the governmental Accounting Standards Board (GASB) Statement NO. 14, "The Financial Reporting entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montmorency County Road Commission, a discretely presented component unit of Montmorency County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of County road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation - Government-Wide financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Montmorency County Road commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation - Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus/Basis of Accounting - Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Measurement Focus/Basis of Accounting-Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Prepaid Expenses/ Prior Period Adjustment

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements. Prepaid insurance was recorded for the first time as of December 31, 2003 in the amount of \$24,595. The change from 2003 to 2004 is recorded in 2004 expenses. The \$24,595 is reported as a prior period adjustment to the opening fund balance.

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Montmorency County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Montmorency County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The Road Commission has retroactively capitalized the major infrastructure assets, as required by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years	Shop Equipment	10 years
Road Equipment	5 to 8 years	Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years	Infrastructure - Roads	8 to 30 years
Infrastructure - Bridges	12 to 50 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year end.

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Change - Effective January 1, 2004 the Road Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic financial Statements - and Management's Discussion and Analysis - for State and Local governments (GASB No. 34)*, along with all related statements and interpretations. Changes to the Road Commission's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Road Commission's overall financial position and results of operations has been included.

Basic financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for the operating fund has been provided.

Capital assets in the statement of net assets includes assets totaling \$12,120,498 not previously accounted for by the Road Commission in its operating fund. This includes \$9,913,931 of infrastructure which is further explained under the capital assets caption.

The statement also includes bonds and other long-term obligations totaling \$922,260 previously reported in the General Long-term Debt Account Group.

The operating fund now accrues a liability for compensated absences. At December 31, 2004 that amount was \$215,681.

NOTE B - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2004 the County Road Commission incurred no expenditures in excess of the amounts budgeted.

NOTE C - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Imprest cash	\$ 200	Imprest cash	\$ 200
Cash demand and time deposits	277,736	Savings and checking	
		Accounts	277,736
Total	<u>\$ 277,936</u>		<u>\$ 277,936</u>

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE C - CASH AND INVESTMENTS (CONTINUED)

DEPOSITS - At year-end the carrying amount of the Road Account deposits was \$277,736 and the bank balance was \$355,009. These funds are 37.7% insured by the Federal Deposit Insurance Corporation.

Investments - Act 217, PA 1982, authorized the Commission to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The Road commission has no investments at December 31, 2004.

NOTE D - PENSION PLAN

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. Covered payroll was \$1,015,960 total payroll was \$1,038,388 for the year. The total contribution to the plan for 2004 was \$50,798.

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2004	\$ 1,111,164
Employer Contributions	50,798
Employee Contributions	53,939
Net Investment Earnings and	
Market Value Increase	123,019
Administrative Fees	(11,631)
Distributions	<u>(182,284)</u>
Total Plan Assets at	
December 31, 2004	<u>\$ 1,145,005</u>

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE E - CAPITAL ASSETS**

The following is a summary of changes in the capital assets:

	Balance 1/1/04	Additions	Disposals	Balance 12/31/04
Capital assets not being depreciated:				
Land and Improvements	\$ 17,476	\$ -	\$ -	\$ 17,476
Infrastructure and Land Improvements	4,423,075	287,654		4,710,729
	<u>4,440,551</u>	<u>287,654</u>	<u>0</u>	<u>4,728,205</u>
Capital assets being depreciated:				
Buildings	1,995,041	4,337	-	1,999,378
Equipment - Road	2,370,124	105,105	4,000	2,471,229
Equipment - Shop	41,468	-	-	41,468
Equipment - Office	37,411	879	-	38,290
Equipment - Engineering	2,483	4,752	-	7,235
Depletable Assets	83,640	-	-	83,640
Infrastructure - Bridges	1,780,242	318,547	-	2,098,789
Infrastructure - Roads	5,769,873	766,086	-	6,535,959
Subtotal	<u>12,080,282</u>	<u>1,199,706</u>	<u>4,000</u>	<u>13,275,988</u>
Accumulated Depreciation:				
Buildings	179,652	62,814	-	242,466
Equipment - Road	1,997,160	138,718	4,000	2,131,878
Equipment - Shop	16,842	4,472	-	21,314
Equipment - Office	21,602	3,850	-	25,452
Equipment - Engineering	2,483	616	-	3,099
Depletable Assets	27,940	-	-	27,940
Infrastructure - Bridges	271,939	52,311	-	324,250
Infrastructure - Roads	2,479,297	627,999	-	3,107,296
Subtotal	<u>4,996,915</u>	<u>890,780</u>	<u>4,000</u>	<u>5,883,695</u>
Net Capital Assets Being Depreciated	<u>7,083,367</u>	<u>308,926</u>	<u>-</u>	<u>7,392,293</u>
Total Net Capital Assets	<u>\$ 11,523,918</u>	<u>\$ 596,580</u>	<u>\$ -</u>	<u>\$ 12,120,498</u>

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE F- POST EMPLOYMENT HEALTH CARE BENEFITS**

In addition to pension benefits described in Note 3, the Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$365 per month would be paid towards health insurance coverage for any retired employee. During 2004, six retirees received this benefit and approximately \$26,280 in premiums were paid on their behalf.

**NOTE G - EQUIPMENT LEASES**

The Road Commission initially entered into long term equipment leases during 1997. They had a maturity date of 7/15/02. All were renewed at that date with the following terms:

<u>Equipment Item</u>	<u>Lease Maturity Date</u>	<u>Monthly Lease Payment</u>	<u>Guaranteed Purchase Amount</u>
CAT 950 Wheel Loader	08/15/05	\$ 1,500	67,000
CAT 928 Wheel Loader	07/15/05	1,131	35,952
CAT 928 Wheel Loader	07/15/05	1,131	35,952
CAT 143H Motor Grader	07/15/05	1,744	77,359
CAT 143H Motor Grader	07/15/05	2,101	77,712
CAT 143H Motor Grader	07/15/05	1,847	77,460
CAT 613 Scraper	05/15/07	<u>2,758</u>	120,000
		<u>\$ 12,212</u>	

**NOTE H - FEDERAL REVENUE/GRANTS**

The accompanying financial statements reports federal revenue for the year ended December 31, 2004 as \$309,517. All of this revenue was for contracted projects paid for and administered by the Michigan Department of Transportation. These contracted projects are not subject to A-133 single audit requirements at the individual road commission level, as they are included in the MDOT's single audit. A single audit is not required at Montmorency County Road Commission for the fiscal year ended December 31, 2004.

**NOTE I - RISK MANAGEMENT**

Montmorency County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between Municipal Corporations (inter-local agreements) to form group self-insurance pools.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, vehicle liability coverages, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Montmorency County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, vehicle and equipment liability, bodily injury, property damage and personal injury liability. The Pool agreement provides that it shall be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance based upon limits determined by the Pool Board of Directors.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.



MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE 10 - CHANGES IN LONG-TERM DEBT

<u>Description</u>	<u>1/1/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04</u>
Installment Loans:				
1999 Ford Trucks	\$ 30,052	\$ -0-	\$ 30,052	\$ -0-
New Holland Tractor/Mower	32,527	-0-	10,267	22,260
Series 2003 Bond Issue	900,000	-0-	-0-	900,000
Compensated Absences	<u>267,652</u>	<u>-0-</u>	<u>(1) 51,971</u>	<u>215,681</u>
Totals	<u>\$ 1,230,231</u>	<u>\$ -0-</u>	<u>\$ 92,290</u>	<u>\$ 1,137,941</u>

(1) Compensated absences are recorded as a net addition or deduction.

Annual Debt Service Requirements for Long-Term Debt:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 95,832	\$101,428	\$ 95,000	\$ 95,000	\$100,000	\$435,000	\$ 922,260
Interest	<u>29,779</u>	<u>27,058</u>	<u>24,180</u>	<u>21,568</u>	<u>18,955</u>	<u>41,288</u>	<u>162,828</u>
Totals	<u>\$125,611</u>	<u>\$128,486</u>	<u>\$119,180</u>	<u>\$116,568</u>	<u>\$118,955</u>	<u>\$476,288</u>	<u>\$1,085,088</u>

Installment Loans:

In 2002 a New Holland tractor/mower was purchased and financed through New Holland Credit Corp. Annual payments of \$12,055 are due with an interest rate of 5.50%. The loan matures in 2006.

Series 2003 Michigan Transportation Fund Bond Issue

During 2003 \$900,000 was borrowed to assist in reconstruction of the Atlanta facility necessary after the fire which occurred in 2002. The amortization schedule is as follows:

	<u>Interest Rate</u>	<u>May 1</u>		<u>November 1</u>	
		<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2005	2.50%	14,278	-0-	14,278	85,000
2006	2.50%	13,215	-0-	13,215	90,000
2007	2.75%	12,090	-0-	12,090	95,000
2008	2.75%	10,784	-0-	10,784	95,000
2009	3.10%	9,478	-0-	9,478	100,000
2010	3.35%	7,927	-0-	7,927	105,000
2011	3.55%	6,169	-0-	6,169	105,000
2012	3.75%	4,305	-0-	4,305	110,000
2013	3.90%	<u>2,242</u>	<u>-0-</u>	<u>2,242</u>	<u>115,000</u>
		<u>\$ 80,488</u>	<u>\$ -0-</u>	<u>\$ 80,488</u>	<u>\$ 900,000</u>

MONTMORENCY COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE 10 - CHANGES IN LONG-TERM DEBT (CONTINUED)

Interest rates varied between 2.50% and 3.90% over the life of the Bond Issue.

Compensated Absences

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2004 was \$145,625. Vacation and personal days accumulated created a liability of \$70,056 for a total of \$215,681.

## **REQUIRED SUPPLEMENTAL INFORMATION**

MONTMORENCY COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Adopted Budget	Final Amended Budget	Actual	Variance with Final Budget
Licenses and Permits:				
Permits	\$ 38,000	\$ 39,414	\$ 39,414	\$ -
Subtotal	38,000	39,414	39,414	-
Federal Aid:				
STP Funds	500,000	150,582	150,582	-
D Funds	-	133,935	133,935	-
Other	35,000	25,000	25,000	-
Subtotal	535,000	309,517	309,517	-
State Aid:				
Engineering	10,000	10,000	10,000	-
Allocation	2,180,000	2,368,631	2,368,633	2
Snow Removal	30,000	32,272	32,272	-
Economic Development Funds	128,556	132,039	132,039	-
Subtotal	2,348,556	2,542,942	2,542,944	2
Contributions				
Townships	180,000	155,602	155,602	-
Subtotal	180,000	155,602	155,602	-
Interest and Royalties				
Interest Income	4,000	3,456	3,456	-
Royalty Income	6,000	6,251	6,251	-
	10,000	9,707	9,707	-
Other Revenue:				
Miscellaneous/Salvage Sales	9,600	16,766	16,766	-
Gain on Sale of fixed Assets	-	4,005	4,005	-
Subtotal	9,600	20,771	20,771	-
Total Operating Revenue	3,121,156	3,077,953	3,077,955	2
Other Financing Sources:				
Proceeds From Debt	500,000	-	-	-
Total Other Financing Sources	500,000	-	-	-
Total Revenue	\$ 3,621,156	\$ 3,077,953	\$ 3,077,955	\$ 2

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Adopted Budget	Final Amended Budget	Actual	Variance with Final Budget
Primary Road:				
Heavy Maintenance	\$ 723,756	\$ 501,000	\$ 500,793	\$ 207
Maintenance	750,000	491,000	490,665	335
Local Road:				
Heavy Maintenance	542,400	872,000	871,494	506
Maintenance	800,000	882,000	881,903	97
Equipment Expense - Net:				
Direct			594,859	
Indirect			397,280	
Operating			145,966	
Less:				
Equipment Rental			(873,289)	
(1)	-	265,000	264,816	184
Administrative Expense - Net:				
Administrative Expense			246,365	
Less:				
Purchase Discounts			(1,146)	
(1)	245,000	246,000	245,219	781
Capital Outlay - Net:				
Capital Outlay			115,073	
Less:				
Depreciation			(210,470)	
(1)	300,000	(95,370)	(95,397)	27
Debt Service:				
Interest	60,000	38,260	38,258	2
Principal	200,000	40,320	40,319	1
	260,000	78,580	78,577	3
Total Expenditures	\$ 3,621,156	\$ 3,240,210	\$ 3,238,070	\$ 2,140

(1) Budgeted in total

See Notes to Financial Statements

## **SUPPLEMENTAL INFORMATION**

MONTMORENCY COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues and Other Financing Sources	\$ 1,723,215	\$ 1,291,756	\$ 62,984	\$ 3,077,955
Total Expenditures	1,145,253	2,076,372	16,445	3,238,070
Excess of Revenues Over (Under) Expenditures	577,962	(784,616)	46,539	(160,115)
Fund Balance - January 1, 2003	42,583	733,030	147,943	923,556
Prior Period Adjustment	1,134	19,528	3,933	24,595
Fund Balance January 1, 2004 Restated	43,717	752,558	151,876	948,151
Optional Transfers	(426,621)	426,621	-	-
Fund Balance - December 31, 2003	\$ 195,058	\$ 394,563	\$ 198,415	\$ 788,036

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits:				
Permits	\$ -	\$ -	\$ 39,414	\$ 39,414
Federal Aid:				
STP Funds	-	150,581	-	150,581
D Funds	133,935	-	-	133,935
Other	25,000			25,000
State Aid:				
Engineering	6,004	3,996	-	10,000
Allocation	1,422,073	946,561	-	2,368,634
Snow Removal		32,272	-	32,272
Economic Development Funds	132,039	-	-	132,039
Contributions				
Townships	-	155,602	-	155,602
Other	-	-	937	937
Interest				
Interest Income	159	2,744	553	3,456
Other Revenue:				
Salvage Sales	-	-	15,829	15,829
Royalties	-	-	6,251	6,251
Gain on Sale of fixed Assets	4,005	-	-	4,005
Total Operating Revenue	<u>\$ 1,723,215</u>	<u>\$ 1,291,756</u>	<u>\$ 62,984</u>	<u>\$ 3,077,955</u>

See Notes to Financial Statements



MONTMORENCY COUNTY ROAD COMMISSION  
ANALYSIS OF EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road:				
Heavy Maintenance	\$ 500,793	\$ -	\$ -	\$ 500,793
Maintenance	490,665	-	-	490,665
Local Road:				
Heavy Maintenance	-	536,109	-	536,109
Maintenance	-	881,903	-	881,903
Local Road Structure:				
Heavy Maintenance	-	335,385	-	335,385
Equipment Expense - Net	82,040	166,331	16,445	264,816
Administrative Expense - Net	88,575	156,644	-	245,219
Capital Outlay - Net	(95,397)	-	-	(95,397)
Debt Service				
Interest	38,258	-	-	38,258
Principal	40,319	-	-	40,319
Total Expenditures	<u>\$ 1,145,253</u>	<u>\$ 2,076,372</u>	<u>\$ 16,445</u>	<u>\$ 3,238,070</u>

See Notes to Financial Statements



**Thomas R. Zick CPA, P.C.**  
CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

February 15, 2005

Board of County Road Commissioners  
Montmorency County Road Commission  
Atlanta, Michigan 49709

I have audited the component unit financial statements of Montmorency County Road Commission, as of and for the year ended December 31, 2004, and have issued my report thereon dated February 15, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Montmorency County Road Commission's component unit financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Montmorency County Road Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

Page 2  
Montmorency County Road Commission  
February 15, 2005

This report is intended for the information and use of management, the Board of Road Commissioners, the Michigan Department of Transportation and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA, P.C." in a cursive style.

Thomas R. Zick CPA, P.C.  
Certified Public Accountant